

## SUMMARY

### January-December

- Net sales for the financial year totaled EUR 22.5 million, which was 3% less than in the previous year.
- StoneGate sales were EUR 6.8 million, up by 18% on the previous year.
- StoneBeat sales were EUR 0.9 million, down by 51% on the previous year.
- Operating loss before amortization of goodwill amounted to EUR 9.0 million. The previous year's comparable loss was EUR 13.9 million.
- Earnings per share were EUR -0.25, compared with EUR -0.26 for the previous year. The loss was increased to the previous year's level due to a writing off of a imputed tax receivable booked in the 2001 balance sheet by 4,3 million euros.
- Liquid assets totaled EUR 22.0 million at the end of the financial year, which was EUR 5.5 million less than one year previously.
- The company's cash flow was negative EUR 5.5 million. The previous year's cash flow was negative EUR 13.0 million.

"The development of the sale of StoneGate Product family during 2004 was clearly positive. This development and the improving cash flow trend enable the transition to a new stage in which the main focus will be on substantial growth in StoneGate sales still keeping in mind the importance of cost effectiveness" says Ilkka Hiidenheimo, the CEO of the company.

The company started to take measures at the end of the year to strengthen the sales in selected geographical and product focus areas in accordance with the strategy. The addition in resources is expected to bring additional sales with 3-9 month's delay because of the length of the sales cycles in the enterprise segment. However, the recruitment and salary costs will increase the cost level already starting from the first quarter.

The company believes that, as a consequence of these changes, its core business, product sales, will grow significantly faster than the estimated average growth of 20 % in the network security market forecasted by the most distinguished research institutes. The company believes that this growth will help it to reach profitability.

Due to normal seasonality effects, sales in the first quarter are expected to be sequentially lower than in the last quarter of 2004. The company expects however, that the year-on-year growth from 2004 will be clearly positive. According to the current plans of the company EBITA will be positive as of the last quarter of the year.

### October-December

- Net sales for the fourth quarter were EUR 6.4 million, which is a 4% decrease compared with the previous year's corresponding quarter. The decline relates among other things to the sales of third-party products, which, in line with strategy, are being discontinued.
  - StoneGate sales totaled EUR 2.3 million in the fourth quarter, a 12% increase compared with the corresponding quarter of 2003.
  - StoneBeat sales totaled EUR 0.26 million in the fourth quarter, a decrease of 49% on the previous year's corresponding quarter.
  - Operating loss before amortization of goodwill was EUR 1.4 million. The comparable loss for the final quarter of 2003 was EUR 1.9 million.
- Cash flow in the final quarter was a negative EUR 0.8 million.

The figures in this financial statements release are unaudited.

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Chief Executive Officer

This release and the presentation material related to the Interim Report are also available on Stonesoft's web site at <http://www.stonesoft.com>.

A press conference will take place on February 18, 2005 at 10.30 a.m. at the Stonesoft headquarters, street address Itälahdenkatu 22A, 00210 Helsinki.

Stonesoft Corporation is a globally operating company focusing on network security and business continuity assurance for corporate entities. StoneGate is a network security solution that integrates firewall, VPN and intrusion detection solutions. StoneGate incorporates the award-winning StoneBeat load balancing technology.

StoneGate is designed for companies whose operations require maximum network and network connections' security and availability. StoneGate enables the reliable use of business-critical applications. StoneGate is a cost-effective solution that helps to achieve a better price/performance level and a shorter investment payback time than with rivaling firewall, VPN and intrusion detection solutions. Stonesoft was established in 1990. The corporate headquarters are located in Helsinki, Finland. The American headquarters are located in Atlanta and the APAC area headquarters are located in Singapore. More information on Stonesoft is available at [www.stonesoft.com](http://www.stonesoft.com).

## BOARD OF DIRECTORS' REPORT

NET SALES AND PROFIT  
(previous year's figures in parenthesis).

The 2004 financial year

Stonesoft Corporation's net sales in January-December were EUR 22.5 million (EUR 23.2 million). Compared with the previous year's corresponding period, there was a decrease of EUR 0.7 million, or 3%. The earnings before interest, taxes & amortization for the year under review was EUR -9.0 million (EUR -13.9 million).

The geographical distribution of net sales was as follows: Europe, Middle East and Africa 74% (72%), North and South America 19% (20%) and Asia-Pacific 7% (8%).

The company's operating result was up EUR 4.6 million compared to the previous year. The loss for the year after taxes was EUR 14.5 million. The previous year's loss was EUR 14.8 million. During the year, the company wrote off EUR 4.3 million imputed tax receivable from the balance sheet.

## Finance and investments

At the end of the year under review, the Corporation's total assets were EUR 29.8 million (EUR 43.3 million). The equity ratio was 81% (90%) and gearing (the ratio of net debt to shareholders' equity) was -1.06 (-0.78). Consolidated liquid assets at the end of the year totaled EUR 22.0 million (27.4). Investments in fixed assets totaled EUR 0.26 million (0.20).

## DEVELOPMENT OF BUSINESS OPERATIONS

### Markets and competitive environment

Network security markets are expected to grow steadily in the coming years. The growth of both the firewall/VPN markets and the IDS/IPS markets is expected to continue at an annual rate of about 20% in 2004-2006 (Sources: IDC, Datamonitor).

### Main business events in 2004

- Development of the StoneGate IPS (Intrusion Detection and Analysis with Active Response) product was completed in May.

- In the same month, Stonesoft published a new management system, the StoneGate Management Center 3.0. The StoneGate Management Center 3.0 integrates the StoneGate product family - firewall, VPN and the new IPS - into a seamless, easy-to-manage comprehensive network security solution, the StoneGate Security Platform. This solution provides data networks with multi-layer protection.

Multi-layer network security that incorporates a firewall, VPN and IPS protects not only the outer part of the organization's network but also the Intranet. The StoneGate Security Platform integrates the most important network security components, network management and high availability.

- In early August, Stonesoft's Board of Directors appointed Ilkka Hiidenheimo, 44, the company's founder and Chief Technical Officer, as Stonesoft's new CEO. The previous CEO Jorma Turunen resigned. At the same time, Mikael Nyberg, 44, M.Sc. (Eng.) was appointed the company's Chief Financial Officer and member of the Management Team.

- In August, the company commenced measures to adapt its costs and organization to better match the current level of business, with a view to achieving business profitability more rapidly. These measures were expected to create cost savings of approximately EUR 1 million on the global level per quarter.

- The company re-evaluated its strategy during the final quarter, completed the announced cost saving program and commenced measures, in line with its strategy, aimed at increasing sales.

#### REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

Stonesoft focuses on innovative research and development and the protection of its inventions. In the financial year, the company's R&D focused on developing both new and existing high availability network security solutions.

The company's investments in research and development in 2004 totaled EUR 5.1 million (6.5).

Research and development employed 63 (66) persons at the end of the financial year.

In line with the Corporation's accounting principles, R&D expenditure is booked as an expense at the moment it occurs.

#### ADOPTION OF IFRS

Stonesoft Corporation will adopt IFRS-compliant reporting in 2005. The first interim report prepared according to the IFRS (International Financial Reporting Standards) will be published for the first quarter of 2005. The process of transferring to the preparation of consolidated financial statements in compliance with the IFRS is proceeding according to plan.

The opening balance sheet of the year 2004 and the Income Statements and Balance Sheets of the first three quarters are ready. Accordingly, the year 2005 quarterly results can include comparison with the year 2004 results. Most significant changes to Stonesoft are as follows:

amortization of goodwill will no longer be done but goodwill will be tested for its value

finance leases are transferred to the balance sheet and costs booked as depreciation instead of as rents

larger development projects must, in the future, be activated in the balance sheet

stock option programs must be booked as costs

imputed tax receivables will be booked on the balance based on the company's capability to utilize them

The overall impact of the IFRS rules is estimated to be small to Stonesoft. Stonesoft will report geographical areas (EMEA, Americas and APAC) as primary segments.

#### SHARE CAPITAL AND OPTION PROGRAMS

Authorizations currently in force

The Annual General Meeting of 10 March 2004 decided to grant a new authorization to the company's Board of Directors to decide on increasing the company's share capital in the following way:

rights offering; and/or  
granting options; and/or  
issuing convertible bonds.

The terms and conditions of the authorization are:

The share capital of the company may be increased in one or several lots in such a way that the shares issued in the rights offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds can altogether increase the share capital of the company by a maximum of EUR 229,000.00 so that a maximum of 11,450,000 shares with a counter book value of EUR 0.02 each, can be subscribed for in the said rights offering and/or share issue on the basis of the issued options and/or the shares issued in exchange for convertible bonds. Options may only be granted on condition that the shares issued on the basis of these rights can only increase the company's share capital by a maximum of EUR 30,000.00. Options can only be granted in conjunction with acquisitions or mergers.

The Board of Directors of the company has the right to decide on who is entitled to subscribe for new shares, options or convertible bonds. The new shares and/or options and/or convertible bonds can, in accordance with Chapter 4 Section 6 of the Companies Act (No 734/1978 with its amendments), be subscribed for with contribution in kind or otherwise under specific terms and conditions.

The new shares issued in the rights offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds can be offered for subscription by making an exception to the pre-emptive subscription rights of shareholders referred to in Chapter 4 section 2 of the Companies Act (No 734/1978 with its amendments) if the exception can be justified on grounds that are financially significant to the company, such as acquisitions, implementation of co-operation arrangements or an increase in the number of financing options, or as a part of an incentive scheme for the company's management and/or other members of the personnel.

The Board of Directors of the company is entitled to decide on the basis of determining the subscription price of the new shares issued in the rights offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds, as well as on the subscription price itself which may not, however, be less than the counter book value of the share.

The Board of Directors of the company is entitled, within the limits set by the Companies Act (No 734/1978), to decide on all the other issues and conditions related to the rights offering and/or issue of options and/or the issuing of convertible bonds, such as on the interest payable on the convertible bonds.

The authorization will be in force until the following Annual General Meeting of Shareholders, but not, however, for more than one year from the date of this resolution of the Annual General Meeting of Shareholders.

#### Option programs

Stonesoft Corporation's Extraordinary General Meeting of 24 November 2004 accepted the Board's proposal for a new Stonesoft option program, offering up to 1,500,000 options to Stonesoft Group companies' boards, other management and personnel. Some of the options are issued to subsidiaries fully owned either directly or through its other subsidiaries by Stonesoft Corporation.

Each option entitles its owner to subscribe for one Stonesoft share with a counter book value of EUR 0.02. A maximum of 1,500,000 shares may be subscribed for in the option program, meaning that the company's share capital may increase through these share subscriptions by up to EUR 30,000.

The options are divided into four different types, depending on the terms and conditions of the option program. The share subscription period begins, depending on the type of option, on 1 January 2006 at the earliest, and ends with all options on 31 December 2010. The share subscription price when using options is EUR 0.56.

During 2004 no subscriptions were made on the basis of the option programs for key personnel of the company.

At the end of the financial year on 31 December 2004, Stonesoft's share capital entered in the Trade Register totaled EUR 1,146,054.64. The number of shares was 57,302,732 and the counter book value of each share was EUR 0.02. The share capital remained unchanged.

#### DEVELOPMENT OF SHARE PRICES AND TURNOVER

On 2 January 2004, Stonesoft's shares were valued at EUR 0.68. At the end of the year, the share price was EUR 0.58. The highest share price was EUR 1.07 and the lowest EUR 0.51. During the year, the total turnover of Stonesoft shares amounted to EUR 22 million. Stonesoft's share price decreased by 15 % during 2004. Over the same period, the Helsinki Stock Exchange HEX index increased by 3,25 %, while the telecom & electronics sector index decreased by 12,21 %. Based on the share price on 30 December 2004, Stonesoft's market capitalization was EUR 33.2 million.

#### PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

The parent company's operating loss before amortization of goodwill (EBITA) was EUR 9.0 million. At the end of the period, neither the Corporation nor the parent company had any distributable equity in its shareholders' equity. The Board of Directors proposes that the parent pay no dividend for 2004 and that the loss be debited to the retained earnings account.

#### PERSONNEL

At the end of the 2004 financial year, Stonesoft's personnel numbered 237 (264). During the 2004 financial year, the company carried out a substantial structural reform in the organization, enabling an increase in the efficiency of administration and a significant increase in the number of people engaged in sales duties in the key markets specified in Stonesoft's strategy.

#### THE COMPANY'S BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In the 2004 financial year, Jorma Turunen was the CEO of the company between 1 January 2004 and 2 August 2004, and Ilkka Hiidenheimo was the CEO of the company between 3 August 2004 - 31 December 2004.

The Chairman of the company's Board of Directors was Alexis Sozonoff and other members were Ilkka Hiidenheimo Hannu Turunen, John C. Yates and Kai Karttunen until 10 March 2004.

Alex Sozonoff continued as the Chairman of the Board of Directors and Ilkka Hiidenheimo as a Board Member after the Annual General Meeting in 10 March 2004. Pertti Ervi and Jyrki Ritvala were elected to the Board of Directors as new Board Members.

As of 3 August 2004, the members of the company's Management Team were Ilkka Hiidenheimo, Mikael Nyberg, Erkki Panula, Saara Laine and Tobias Christen.

#### MAJOR EVENTS AFTER THE FINANCIAL YEAR

In February, Stonesoft published the StoneGate firewall and VPN solution for IBM i5-servers published in September 2004.

#### FUTURE OUTLOOK

The company started to take measures at the end of the year to strengthen the sales in selected geographical and product focus areas in accordance with the strategy. The addition in resources is expected to bring additional sales with 3-9 month's delay because of the length of the sales cycles in the enterprise segment. However, the recruitment and salary costs will increase the cost level already starting from the first quarter.

The company believes that, as a consequence of these changes, its core business, product sales, will grow significantly faster than the estimated average growth of 20 % in the network security market forecasted by the most distinguished research institutes. The company believes that this growth will help it to reach profitability.

Due to normal seasonality effects, sales in the first quarter is expected to be sequentially lower than in the last quarter of 2004. The company expects however, that the year-on-year growth from 2004 will be clearly positive. According to the current plans of the company EBITA will be positive as of the last quarter of the year.

#### Distribution:

Helsinki Stock Exchange  
Main media

Stonesoft Corporation		
Income Statement	1.1-31.12.2004	1.1-31.12.2003
(Euro 1000)		
Net Sales	22 490	23 197
Other operating income	545	840
Materials and services	1 859	1 780
Personnel costs	17 214	20 147
Depreciations	1 304	1 507
Other operating expenses	11 674	14 464
Operating Profit / Loss (EBITA)	-9 016	-13 861
Goodwill depreciations	1 206	1 206
Operating Profit / Loss (EBIT)	-10 221	-15 067
Financial income and expenses	304	817
Profit / Loss before extraordinary items	-9 918	-14 250
Extraordinary income	0	37
Extraordinary expenses	0	1
Profit / Loss before taxes and minority Interest	-9 918	-14 214
Direct taxes	4 602	573
Profit / Loss for the Accounting period	-14 519	-14 787
Stonesoft Corporation		
Balance Sheet (Euro 1000)	31.12.2004	31.12.2003
Assets		
Non-Current Assets		
Intangible assets	587	1 038
Consolidated goodwill	301	1 507
Tangible assets	673	1 267
Investments	9	6
Non-Current Assets Total	1 570	3 818
Current assets		
Inventories	188	91
Long-term receivables	38	4 370
Short-term receivables	6 023	7 570
Investments	20 590	24 126
Cash on hand and on deposit	1 372	3 315
Current Assets Total	28 211	39 472
Total	29 781	43 291
Liabilities		
Shareholders' Equity	20 690	35 121
Provisions	49	159
Liabilities		
Short-term liabilities	9 043	8 011
Total Liabilities	9 043	8 011
Total	29 781	43 291
Stonesoft Corporation		
Key Ratios	1.1.-31.12.2004	1.1.-31.12.2003
EURO 1000		
Net Sales	22 490	23 197
Net Sales Change-%	-3 %	-23 %
Operating Profit / Loss Before		

Goodwill Depreciations (EBITA)	-9 016	-13 861
% of Net Sales	-40 %	-60 %
Operating Profit / Loss After Goodwill Depreciations (EBIT)	-10 221	-15 067
% of Net Sales	-45 %	-65 %
Profit / Loss before Extraordinary Items	-9 918	-14 250
% of Net Sales	-44 %	-61 %
Profit / Loss before taxes and minority Interest	-9 918	-14 214
% of Net Sales	-44 %	-61 %
ROE - %, annualized	-52 %	-35 %
ROI - %, annualized	-33 %	-33 %
Equity Ratio-%	81 %	90 %
Net Gearing	-1.06	-0.78
Total Asset	29 781	43 291
Capital Investments	259	197
% of Net Sales	1 %	1 %
R&D Costs	5 086	6 541
% of Net Sales	23 %	28 %
Number of Employees (Weighted Average)	258	298
Number of Employees at the end of the period	237	264
Share Specific Ratios		
Earnings per Share (EUR)	-0.25	-0.26
Equity per Share (EUR)	0.36	0.61
Dividend per Share (EUR)	0.00	0.00
Dividend / Profit-%	0 %	0 %

Weighted Amount of Shares (Option dilution effect included)	57 302 732	57 302 732
Amount of Shares at the End of period	57 302 732	57 302 732

Stonesoft Corporation Quarterly Development (Euro Millions)	Q4 / 2004	Q3 / 2004	Q2 / 2004	Q1 / 2004	2004
Security software and appliances	2.6	1.8	1.8	1.5	7.7
Services	3.8	3.3	3.8	3.5	14.5
Other products	6.4	5.3	5.8	5.0	22.5
Net sales change-% from previous year	-4 %	7 %	3 %	-16 %	-3 %
Sales Margin	5.9	4.8	5.3	4.6	20.6
Sales Margin %	93 %	91 %	92 %	92 %	92 %
Operative expenses	7.4	7.2	7.7	7.6	29.9
Operating profit (EBITA) before restructuring costs	-1.4	-1.9	-2.2	-3.0	-8.5
% of net sales	-22 %	-35 %	-39 %	-59 %	-38 %
Operating profit (EBITA)	-1.4	-2.4	-2.2	-3.0	-9.0
% of net sales	-22 %	-45 %	-39 %	-59 %	-40 %
Profit / loss before taxes	-1.8	-2.6	-2.4	-3.1	-9.9
% of net sales	-28 %	-50 %	-42 %	-62 %	-44 %

Number of employees at the end of the period	237	255	268	266	237
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Stonesoft Corporation Quarterly Development (Euro Millions)	Q4 / 2003	Q3 / 2003	Q2 / 2003	Q1 / 2003	2003
Security software and appliances	2.6	1.4	1.7	1.9	7.6
Services	3.8	3.4	3.8	3.9	14.9
Other products	0.3	0.1	0.2	0.1	0.7
Net sales	6.6	5.0	5.6	6.0	23.2
Net sales change-% from previous year	-5 %	-29 %	-12 %	-39 %	-23 %
Sales Margin	6.0	4.6	5.2	5.6	21.4
Sales Margin %	91 %	93 %	93 %	93 %	92 %
Operative expenses	7.9	7.9	9.6	9.9	35.3

Operating profit (EBITA) before restructuring costs	-1.9	-3.1	-3.2	-3.8	-12.0
% of net sales	-28 %	-64 %	-58 %	-63 %	-52 %
Operating profit (EBITA) % of net sales	-1.9	-3.3	-4.4	-4.4	-13.9
	-28 %	-66 %	-78 %	-73 %	-60 %
Profit / loss before taxes	-1.9	-3.5	-4.4	-4.5	-14.2
% of net sales	-29 %	-70 %	-78 %	-75 %	-61 %

Number of employees at the end of the period	264	268	312	324	264
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Stonesoft Corporation Cashflow Statement (Euro 1000)	1.1.-31.12.2004	1.1.-31.12.2003
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Business operations		
Operating profit / loss	-10 221	-15 067
Adjustments to operating profit / loss	2 400	2 842
Financial income and expenses	304	817
Change in working capital	2 503	-1 036
Extraordinary items	0	35
Taxes paid	-292	-415
Total	-5 306	-12 823

Investment activities		
Investments to intangible and tangible assets	-259	-197
Sales of other shares	-3	-3
Total	-262	-200

Financing activities		
Change in long-term loans	0	-2
Other	88	48
Total	88	46

Change in liquid assets	-5 480	-12 977
Liquid assets at the beginning of the reporting period	27 441	40 418
Liquid assets at the end of the reporting period	21 961	27 441